

# The Economy

# The Southern California Economy Growing Again, Challenges Ahead

*Stephen Levy*

**T**he Southern California economy is, once again, fully participating in California's economic growth. In 1998 Southern California was among the state's job growth leaders with a 3.0% increase compared to the Bay Area (+3.2%), San Diego (+4.4%), Sacramento (+3.6%) and the Central Valley (+2.6%).

Most economic indicators in Southern California posted strong gains in 1998. Per capita income was up 5.2% to \$25,783 far outpacing the region's 1.4% rise in consumer prices. Nonresidential building reached \$6.2 billion up 34.7% over 1997 levels and new housing permits were up 7.6%. Housing resale prices rebounded throughout the region and reached an all-time record in Orange County.

Unemployment rates dropped throughout Southern California and reached the lowest level (5.9%) since 1990. Unemployment rates ranged from 2.9% in Orange County to 6.7% in Riverside and 25.7% in Imperial. The regional unemployment rate was still above the national average (4.5%) in 1998.

Job gains were strongest in Orange County and the Inland Empire. Orange County recorded a 5.0% increase in 1998 and job levels are now 10.5% ahead of 1990 pre-recession levels. Job levels increased by 4.0% in the Riverside-San Bernardino metro area and are 22.8% ahead of the 1990

total. Los Angeles County posted a 2.1% gain in 1998 (+86,100 jobs). By December, Los Angeles County had 4,025,600 wage and salary jobs – within 170,000 of the March 1990 pre-recession peak.

The first four years of the 1990s brought sharp losses in jobs and income to Southern California. The region had greater job losses than other parts of the state and the economy in Southern California remained in recession long after the national economy started to recover.

The causes of the region's comparatively poor economic performance in the first four years of the 1990s are well known – the impact on Southern California of the nation's defense spending cuts and the sharp drop in construction spending after the overbuilding of the late 1980s. The severity of the economic downturn left many of the region's business leaders and residents afraid that Southern California was facing many years of slow economic growth. Fortunately, these fears are being answered by the strong resurgence of the region's economic base.

Southern California's economic base consists of those industries that sell goods and services to markets outside the region – throughout the nation and world. The performance of these industries determines how fast jobs and income grow in the region compared with the rest of California and the nation. Since 1994, the regional economy has added

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jobs at a faster rate than the nation. The reason for this strong economic recovery is the growth of industries in Southern California's economic base during the past four years.

Motion picture production replaced aircraft as the high wage growth leader in Southern California in 1994. Nearly 60,000 wage and salary jobs (close to 100,000 jobs including independent contractors) have been added since 1990. The average wage in motion picture production in 1998 was \$64,900 compared with \$56,400 in aircraft which remains an important industry with more than 75,000 jobs.

Foreign trade is a major growth sector in the region. Despite recent slowdowns in trade volumes related to Asian economic difficulties, trade volumes through Southern California ports and airports have increased six fold during the past twenty years, rising from \$30 billion in 1979 to more than \$180 billion last year. Southern California is the nation's largest foreign trade center and the region has become a significant international financial center. According to data compiled by the Los Angeles Economic Development Corporation, foreign trade related jobs now outnumber jobs in the aircraft, space, defense sector by more than 2 to 1.

Despite the jobs lost from defense spending cuts, Southern California has regained its place as the nation's largest manufacturing center. Approximately 100,000 non-defense manufacturing jobs have been added since 1994 led by gains in apparel, textiles, furniture, machinery and toys. The region's strength in these diversified manufacturing sectors is based

on design, fashion and entrepreneurial skills. The "Southern California" look has created growth in the apparel sector here while substantial jobs losses are occurring in the national industry.

The same combination of entrepreneurial activity and design skills (often in small businesses founded by immigrants to the region) is leading to gains in textiles, furniture and toy manufacturing. In addition Southern California is a major center for biotech and high tech manufacturing. Non-defense manufacturing is growing not only in terms of jobs but the region is also gaining in share of national production and job levels. Southern California has posted 4 straight years of share increases in non-defense manufacturing jobs.

Services are an important component of the region's economic base and are growing in importance every year. The leading service industry in Southern California's economic base is motion picture production, discussed above. Other leading sectors are computer services, multimedia, engineering and management services and tourism. Professional services, entertainment and tourism accounted for 40% of the gains in the region's economic base since 1994 and their importance to regional growth will increase in future years.

In the future these service industries, and not manufacturing, will provide the largest number of new high wage jobs for the regions. It is the past four years, not the 1990-94 recession years, which show us Southern California's economic future. The region's new economic base is well posi-



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tioned in the growth sectors of the 21st century economy. As a result, the region's growth in jobs and population will be substantial – far outpacing the national average.

With this growth, however, come continuing economic challenges.

### Challenges

Southern California's strong economic base gives the region an economic advantage for the 21st century. However, the region and the state still face major economic challenges. These challenges are discussed below.

#### **CHALLENGE ONE: DEVELOPING A LONG TERM ECONOMIC STRATEGY FOR CALIFORNIA AND THE STATE'S MAJOR REGIONS**

Abundant opportunity does not equal guaranteed success. California will need to work hard to convert opportunities into gains in real wages, income, and profits.

California does start with an advantage. The state's economic base is already well positioned in future growth sectors. California's challenge is not to create a new economic base but, rather, to nurture and expand the state's leadership position in key industries.

The actions of California's firms and workers will be the primary determinant of the pace of economic growth. Private sector investment and management decisions will be critical for converting opportunity into prosperity.

#### ***Public policy has a significant role to play in creating a positive environment for private investment.***

Public policy affects the economy in many ways. Public policy determines the tax and regulatory environment, funds public education and training programs, the provision of infrastructure, and many factors that affect our quality of life. State, regional and local governments all play some role in creating the foundations for economic growth.

Three themes in California now are gaining momentum because they simultaneously address business and residents' perspectives:

- ▲ The economy depends on California's education system
- ▲ A strategic infrastructure plan is needed for the economy and for quality of life
- ▲ A high quality of life is a competitive asset for California businesses

An ongoing challenge is to find a balance between reform and resources. Both are desired as current education dialogues show clearly.

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For example, meeting California's infrastructure challenges will require a mix of reform and resources. Increasing infrastructure capacity doesn't always mean more building although plenty of new construction will be required. For example, conservation has been an important tool in providing "new" water and electricity for residents and businesses.

School and transportation construction will pose challenges to our creativity in expanding capacity to meet the requirements of growth. Reforms in construction practices and how schools and roads are used can be important tools in making the large upcoming public investments effective in terms of outcomes and cost.

### CHALLENGE TWO: COMBINING ECONOMIC GROWTH AND QUALITY OF LIFE: A GROWTH MANAGEMENT STRATEGY FOR CALIFORNIA

In 1998 the Center for Continuing Study of the California Economy (CCSCE) prepared a report on the connections between land use decisions, quality of life and the California economy. The report *Land Use and the California Economy: Principles for Prosperity and Quality of Life* was sponsored by California business and community foundations and is available at no charge from Californians and the Land at (415) 281-0415.

The report identifies the paradox of economic growth in California:

1. California's strong economy and resulting job and population gains put pressure on California's land, environ-

ment and quality of life. In Southern California these pressures will intensify under the growth expected by SCAG and others.

2. California business leaders increasingly identify a high quality of life as critical for attracting talented people. **High housing prices, long commutes and environmental pressures are a business problem as well as of great concern to residents.**

The elements of a solution – a strategy to manage growth – are well known. So too are the difficulties in reaching agreement on specifics. There are five principles for simultaneously achieving economic growth, environmental and quality of life goals.

#### Principle One: Regional Perspectives Are Required

Regions are the correct geography for doing the critical thinking about growth. While state policies may be necessary to provide the right incentives, the actual housing, job transportation and open space connections occur at the regional level. Likewise, while most Californians want local land use decision making, everyone recognizes that city decisions must be connected in some way to achieve good regional outcomes.

In Southern California SCAG has a major role in working with cities to develop strategies to accommodate the projected growth while protecting the region's quality of life.

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### **Principle Two: Land Must be Used More Efficiently**

The essence of this principle is that the only way to minimize sprawl is to increase housing in existing urban areas. This will require major changes in state-local fiscal incentives, a commitment to maintain California's large cities as attractive places to live, and policies to make land recycling and infill development easier.

### **Principle Three: Public Investment is Required**

California faces more than \$100 billion in infrastructure investments in the next ten years. The need for substantial increases in public investment – in schools, transportation, airports, and water – has been documented again and again in analyses of California's economic competitiveness. These same investments are also needed to support smart land use planning and maintain a high quality of life for all Californians.

### **Principle Four: Fiscal Reform is Essential**

Current fiscal rules give the wrong land use planning incentives. Current fiscal rules make infrastructure funding difficult. Current fiscal rules prevent local governments from providing high quality public services for California's growing number of businesses and residents.

The long-standing problems documented by many groups – disincentives for housing, competition for retail development, and the inability of local sales and property tax bases

to keep pace with job and population growth – require a change in existing state and local fiscal structures. Economic growth alone will not change the fiscal disincentives for smart land use.

### **Principle Five: Equity Considerations Must Be Included**

Smart land use planning must include job and housing opportunities for all Californians, as well as open space and preservation of the state's unique land resources. Californians share the same land, the same economy, and the same environment. The challenge is to ensure that increases in economic prosperity and quality of life reach all residents.

### **CHALLENGE THREE: BROADENING ACCESS TO ECONOMIC PROSPERITY**

Four years of economic growth have made a difference to many Californians. Average wages and income are up strongly reaching record levels and far outpacing consumer price increases. Moreover, in 1997 and 1998 low income Californians finally shared in the wage growth.

A strong economy had a substantial impact on reducing unemployment and raising incomes. Economic growth remains the most important tool for raising incomes and reducing poverty.

Many residents are still not sharing in the region's overall prosperity and the SCAG Regional Comprehensive Plan sets

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a goal of increasing living standards for all residents in Southern California. This goal requires active public sector policies on workforce preparation – education, training and related services – both to help individuals who are not able to fit into today's economy **and** to meet the growing demands of businesses for more skilled workers.

The key to public policies is to recognize the connections between low, middle and high skilled workers in the region's labor force. Future public policy should build on these connections with a **universal workforce approach** that addresses the multiple challenges in a unified framework:

- ▲ recognizing the growing similarity of former welfare recipients and working poor Californians in their personal goals and workforce requirements
- ▲ recognizing that many middle level workers will need to upgrade skills and change careers to maintain a rising standard of living
- ▲ recognizing that workforce preparation (with a stress on upgrading K-12 education) is the number one public policy issue of California businesses and that private sector expertise can enhance the usefulness of public workforce strategies

There are strong connections between the work and health status of Californians. Income, job satisfaction, and related issues like work schedules and job security all show strong connections to health status. A good job and, therefore, the requirements for getting a good job, are one of California's best health promotion policies.

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The economy of Southern California is one of the largest in the world. The region is the capital of the Pacific Rim and a center of innovation, research, development, trade, and economic activity. The region is also a favorite destination for American and International tourists. Southern California has become a major global trading post and promises to continue its influential role into the 21st century.

## Employment

*Job growth is one of the most important indicators of a healthy economy.*

Figure 1

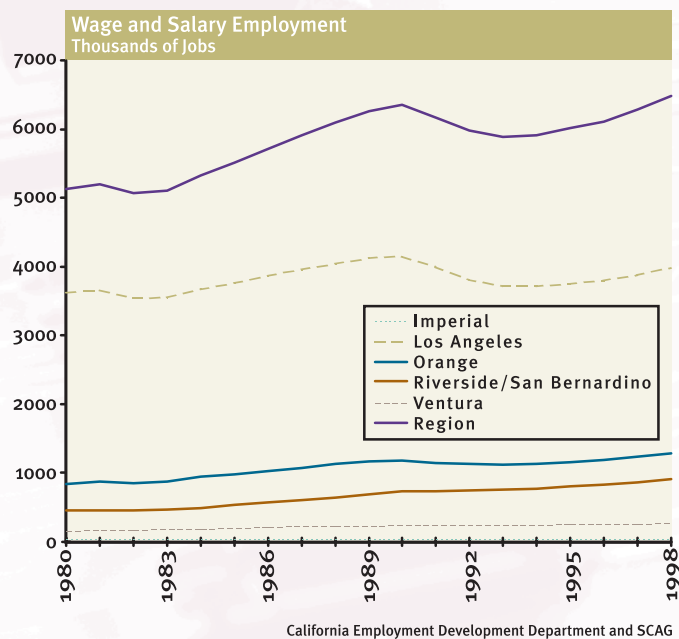
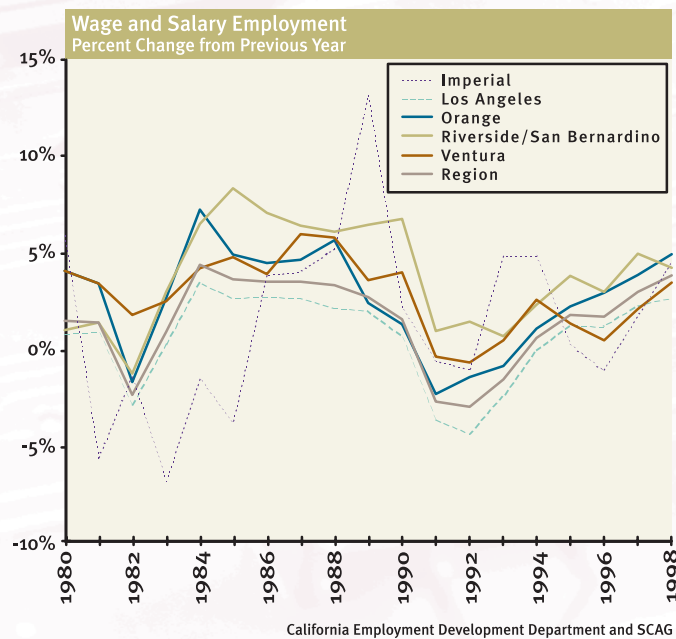


Figure 2





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The region's economy continues to grow and recover from the 1990-93 recession, when nearly 470,000 jobs were lost. Although Los Angeles County gained over 80,000 jobs in 1998, it has not reached its pre-recession level of employment. Employment in Los Angeles County in 1998 remained almost 5 percent below that of 1990. Job gains since the recession have been strong in the other counties.

Employment in the region is slightly lower (2.8 percent) than forecasted by SCAG, although Orange County posted higher employment than forecasted.

(Please see map 7 for the change in employment density between 1990 and 1997.)

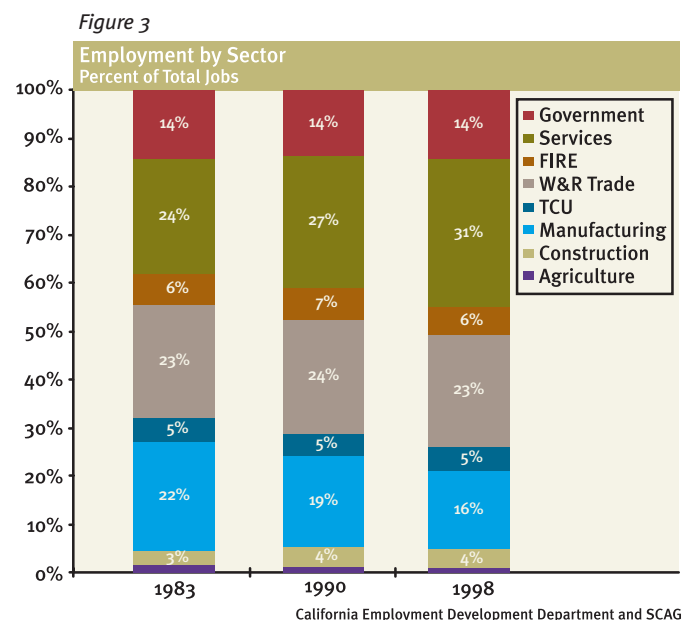
Table 1

Wage and Salary Employment by County					
County	1990	1997	1998	Percent change 1990-98	Percent change 1997-98
Imperial	45	49	51	13.1%	4.1%
Los Angeles	4147	3872	3954	-4.7%	2.1%
Orange	1179	1241	1302	10.5%	4.9%
Riverside/					
San Bernardino	735	863	896	22.8%	3.8%
Ventura	247	260	268	8.5%	3.1%
SCAG Region	6,353	6285	6471	1.8%	3.0%

Source: California Employment Development Department

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**Concentration of employment is important as a measure of economic diversity. If too many jobs are concentrated in one sector, a downturn in that sector could have serious repercussions throughout the regional economy.**



Most major industrial sectors continued to post gains in 1998, unlike earlier in the decade, when all sectors experienced job loss. Agriculture and mining were the only sectors which experienced a loss in 1998 from the previous year. Construction, which grew by over 7 percent, made a large contribution to the expansion of the region's economy,

with over 17,000 new jobs. Manufacturing employment gained over 34,000 jobs last year, a growth of 3.4 percent. This was a sharp contrast with the rest of the state, which lost almost 1 percent of factory jobs. Jobs in the transportation and public utilities sector also had an impressive growth of over 4 percent. Services wound up with the largest increase in employment in 1998 with 67,500 new jobs, a growth rate of 3.5 percent.

(Please see maps 8 - 13 for the concentration of employment in the following sectors: advanced transportation systems and technology; aerospace and defense; apparel; environmental technology; health care and bio-medical equipment; and tourism and entertainment.)

## Unemployment

Throughout the 1980s, the region experienced a lower unemployment rate than the rest of the nation. However, that changed in 1991, when unemployment rates for both the region and the state were higher than the nation's rate. There has been improvement since 1992 and 1993, when the region's unemployment rate reached over 10 percent at various times during that period. The 1998 regional unemployment rate was 5.8 percent, still above the national rate of 4.5 percent, but with a smaller gap. The unemployment rates in the region vary from under 3 percent in Orange County to almost 26 percent in Imperial County.

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***The unemployment rate is a measure of the current loss of productive potential in the region. A reduction in the unemployment rate raises both production and employment in the region, stimulating income growth among its residents.***

The nation's economic statistics at the end of 1998 portray the year as the best for workers since the 1960s. The national unemployment rate was at 4.0 percent in December. The overall national unemployment rate for 1998 averaged 4.5 percent, the lowest level since the Vietnam War.

